Despite a sharp selloff from the price highs early Friday, gold and silver finished higher for the week. Gold ended $8 (0.6%) higher and at fresh six-year highs, while silver added nearly a dollar (6.3%), notching one year highs. As a result, the silver/gold price ratio tightened in by a sharp 5 full points to 88 to1. I remember writing a couple of months ago as the ratio began to widen dramatically that the price ratio tended to go by fractions of a point, but when it corrected it would be by multiple full points. No, I didn't predict that dramatic tightening would occur this week.

This week's dramatic tightening in the silver/gold price ratio needs to be put into proper perspective. Which is another way of saying that silver remains certifiably cheap relative to gold; insanely so. Prior to the start of the COMEX silver manipulation, which I date from 1982 or so, a typical silver/gold price ratio would be no more than 45 to 1. Such a ratio today would put silver at more than $30 – double what it is currently. And my study of silver tells me that even a 45 to 1 ratio wouldn't take into account the vast changes in gold and silver since 1982, namely, that we now have about twice as much gold in the world than we had in 1982 and way less than half of all the silver we had back then.

If you are looking for what accounted for silver's sharp turnabout this past week, I hope you're not looking for specific news of any type because then you're looking in all the wrong places. The dollar? No. Interest rates or inflation? No. Geopolitical developments? No. Actual supply/demand news? You got to be kidding. Nothing accounted for silver's price pop this week other than the same thing that accounted for its lack of pop previously, namely, COMEX futures market positioning. This isn't a case of sticking with the girl you brought to the dance, this is about the only possible explanation for what moves prices – up or down.

I'll get into the changes in this week's Commitments of Traders (COT) report in a moment, as well as a somewhat broader discussion of derivatives in general, after first going through some important physical developments.

The turnover or physical movement of metal either brought into or removed from the COMEX-approved silver warehouses picked up a bit from the super-depressed levels of the prior two weeks, but still fell below the weekly average over the past 8+ years. Some 3.6 million oz were moved this week, as total COMEX silver inventories rose by 0.5 million oz to 307.1 million oz, still a titch below the all-time highs of a few months ago. I still see people trying to equate growing COMEX (or other inventories) as being somehow bearish for price, but you'll have to ask them to explain why – and not just because prices surged this week. There was no change in the JPMorgan COMEX silver warehouse (still at 153.8 million oz).

While it's impossible to predict future COMEX silver warehouse turnover, I'm still of a mind that the whole crazy and highly unprecedented monster physical turnover of the past 8 years may be drawing to a close and with it a drawing to a close of JPMorgan's overt manipulation of the silver price. Yeah, that's speculation on my part and you never know what these master crooks have up their sleeves, but that's my take at this very early point.

Another physical silver development that seems to be occurring and without much fanfare is the end of JPMorgan's strong previous role of being the biggest stopper (taker) of silver deliveries in its own proprietary trading account. Prior to this year, JPMorgan was always the biggest silver stopper – that's where it got most of the 153 million oz in its own COMEX warehouse (and don't forget the 50 to 100 million additional oz it holds in other COMEX warehouses). This year, JPM's silver stopping has gradually ground to a halt, with no stopping at all so far this month.

https://www.cmegroup.com/delivery_reports/MetalsIssuesAndStopsYTDReport.pdf

Both the slowing physical turnover in the COMEX silver warehouses and JPMorgan's cessation of stopping futures contracts for delivery in its own name suggest to me a sea change may be at hand. Almost without notice, the COMEX delivery process has faded in significance, although many still analyze it as if it's the center of the physical metal world. Recently, there appears to be a new center of the physical metals world – the ETFs, particularly in silver.

On Wednesday, I estimated that at least 10 million physical ounces of silver were owed to the big silver ETF, SLV, and perhaps a lot more, as a result of very heavy trading volume to that point. Later that day, more than 8.5 million ounces were deposited and even more since. While I can't call the big deposits as surprising in any way, I must say I was a bit taken aback by how quickly the metal was deposited. That's because I noted delays in the recent deposits into SLV before this week, which indicated a tightness in the wholesale physical market. So the question that struck me was why there wasn't a continuation of the delayed deposit process?

It seems to me that JPMorgan had to have supplied the physical silver that was deposited into SLV this week, close to 14.5 million oz, as I see no signs any other entity could have come with that much physical silver so quickly. In fact, the only question I have concerns JPMorgan's motivation and real goal in supplying the metal. I think it was either JPM trying to extinguish the budding silver fire by supplying metal freely to avert a more pronounced developing physical squeeze or something else. Was it a donation to the cause of prolonging the manipulation or some other motive?

JPMorgan has certainly bought enough physical silver priced lower than what it "donated" to the SLV this week, but the donation was still a couple of dollars below the average price (around $18) that I estimate is the cost basis for JPM's 850 million oz hoard. It sure isn't like JPMorgan to pass up easy profits, as would most assuredly occur if others were forced to come up with physical metal and cause the higher prices that would entail.

Just this week, JPM reported quarterly profits of close to $10 billion. This is the amount that was left over and available free and clear to JPMorgan after all salaries and expenses for its 250,000+ employees and armies of outside lawyers and accountants. And the $10 billion was hardly a one-off, but a regularly recurring quarterly occurrence. On a daily basis (based on a five day work week, with holidays off), JPMorgan's profit is more than $150 million – that's every day. Just like a shark is the perfect eating machine, JPMorgan is the perfect profit machine.

So it strikes me as odd for JPMorgan to be so charitable to competitors in some potential difficulty (the other big silver shorts) and searching for an alternative motivation for it making silver available. That leads me to speculate that while the physical silver likely came from JPM, it came in the form of a lease to the Authorized Participants needing to make the deposit into SLV. This way, JPMorgan hasn't donated the silver at all and is extracting an unknown fee for lending it. No worries for SLV shareholders, as the metal comes in free and clear of any encumbrances into the trust – the obligation for return is between JPMorgan and those AP's and has no bearing on the trust. Hey, you don't make $150 million every day by not dreaming up every scheme under the sun.

Over the past 4 weeks, more than 42 million physical silver ounces have been deposited into the world's leading silver ETFs, including 27 million oz into SLV. Other outstanding deposits include nearly 9.5 million oz into SIVR and more than 4 million oz into the Deutsche Bank silver ETF. I still hold that the main reason for the silver price run to nearly $50 into April 2011 was a developing physical shortage largely generated by demand by investors for silver ETFs Back then, there were some 60 million oz deposited into SLV in the months leading up to the price highs, plus millions of oz more in other silver ETFs, including the Sprott Silver ETF. We may be seeing a recurrence of those events.

As large as the SLV deposits have been, based upon trading volume that has been unprecedentedly enormous, my back of the envelope calculations suggest at least another 10 million oz is still "owed" to the trust and perhaps a lot more. As I have indicated previously, JPMorgan is certainly capable of snuffing out any silver rally, both by selling short COMEX futures and supplying all the physical silver that might be demanded. It is also highly capable of truly screwing the other big commercial shorts and breaking their backs like a twig in a double cross, should it so desire. Hey, have I ever mentioned that this is JPM's show – lock, stock and barrel?

There appears to be little question that the physical silver coming into SLV and the other silver ETFs is coming from JPMorgan. After all, it has been the only real purchaser of silver for more than 8 years. The only question is whether JPM is supplying the metal cleanly or if there are strings attached in the form of leases to those actually making the deposits. Unfortunately, I have no way of determining which it is at this time.

Turning to the just-released COT reports, there were no real surprises in the headline numbers as there was a significant increase in managed money buying and commercial selling in silver and, basically, a push in gold. I guessed a 10,000 contract change in silver and missed by 4,000 contracts on the commercial selling side and by a bit over 2000 contracts on the managed money side due to the surge in price on the Tuesday cutoff. I hadn't offered any guess on gold, as prices hadn't done that much.

In COMEX gold futures, the commercials reduced their total net short position by a miniscule 1000 contracts to 277,400 contracts. Thus, we are still clearly in a "bearish" market structure. Such structures can remain bearish for weeks and months (as occurred in the summer of 2016) and can get more bearish on higher prices. They can also get rigged lower on a moment's notice. As always, the open question is the prospect for a commercial overrun for the very first time ever. But don't ask me – ask JPMorgan.

Despite the near unchanged commercial position, there was a notable tug of war in the commercial camp, as the four big shorts bought back more than 21,000 short contracts. Upon closer inspection, it appears the short covering occurred mostly in the Producer/Merchant category, while there was selling in the Swap Dealer category. I would characterize the buying as being largely at the hands of JPMorgan – almost as if it expected the rally in gold prices seen after the cutoff. The next question, of course, is whether JPM sold into that rally late in the week.

On the managed money side in gold, these traders sold 2552 net gold contracts, comprised of new longs of 3021 contracts and the new short sale of 5573 contracts. The resultant net long position of the managed money traders of 180,059 contracts (211,322 longs versus 31,263 shorts) is still bearish by historical standards and remains virtually the only bearish factor in gold. If we go down (not a prediction), it will be because the commercials rigged prices lower and induced the managed money traders to sell. Will that occur? I don't know.

In COMEX silver futures, the commercials increased their net short position by 14,100 contracts to 59,400 contracts. This is the largest (most bearish) total commercial net short position since Feb 26, when, not coincidentally, silver topped out (at $16.20). Back then, silver had been rallying for a few months, allowing the 50 day moving average to climb sufficiently to where it was around $15.60 or so. This silver rally is new enough to where the 50 (and 200) day moving average is close to $15.00. Does that mean the crooks at JPMorgan, et al can't suddenly rig silver (and gold) prices sharply lower to induce managed money selling? "Can't" is not a word normally associated with what the COMEX crooks might do or that the do-nothing regulators at the CFTC and DOJ won't overlook – but the jury is still out.

It appears to me that JPMorgan was a prominent participant on the short side of silver through Tuesday, adding as many as 10,000 new shorts. Accordingly, I place JPM's short position at somewhere around 10,000 to as many as 15,000 contracts. Even at the higher level, this would still be about half of what JPMorgan held short back on Feb 26, but this is as of Tuesday and the number could be higher through yesterday (although that's a bit unclear).

On the managed money side, these trader bought 12,237 net silver contracts, comprised of 2653 new longs and the buyback and covering of 9584 short contracts. The resultant net managed money long position of 27,764 contracts (79,125 longs versus 51,361 shorts) is still more neutral than anything else, but has likely deteriorated more since the cutoff.

One thing that caught me by surprise was a reduction in the concentrated long position of the 4 largest silver traders of just over 3000 contracts to 59,661 contracts. I had expected an increase, but instead we are now at the lowest level of concentrated longs in 5 weeks, despite an increase in the managed money gross long position. The only plausible explanation was that a large managed money trader or two reduced longs, as many more (11, to be precise) new managed money traders established reporting positions in the current reporting week. The concentrated long position of the 4 largest silver traders is still larger than that of the 4 largest shorts, which is unprecedented before April of this year, but only by less than 2000 contracts.

One thing I never discussed in the recent kerfuffle over who the whale in silver might be was that I wasn't particularly pleased with the position or that it was most likely a managed money trader. That's because such a trader could be ordered (or otherwise persuaded) to reduce the long position by the regulators. I'd much prefer many longs as opposed to just a few because the threat of regulatory intervention. Yes, I know the regulators are much more likely to go after big longs than after big shorts and that that is inherently unfair, but just like love, what's fair got to do with it?

As it stands, the average position of each concentrated long is around 15,000 contracts (75 million oz), which is way more than any long or short should hold. Of course, the longs make sense seeing as silver is priced in the gutter, which makes a large short position economically nonsensical (another term for manipulative). And please understand that if someone wants to hold more than 75 million ounces, then they are much better off do it in the physical form and not in derivatives, where there should be legitimate position limits. That said, I suppose it's possible a big speculative long could have established his or her position and price in futures and moved later to convert to physical. Nothing wrong with that. It's what I would do if I were in that position.

Summing up, JPMorgan appears to have tipped its hand in that it has ventured back onto the short side of COMEX silver futures and has made available the physical silver demanded in the silver ETFs. Certainly, had it not done both, silver would be a heck of a lot higher at this point, proving yet again that JPM is the stone-cold crook I allege it to be. Yet appearances can be misleading, especially when JPMorgan is involved.

I've long speculated that JPMorgan could appear to sell short and supply physical silver early on, only to cease doing so, after a while. This would really cause problems to the other big commercial shorts, should JPM back away from its ironclad control of silver (and gold). These other big shorts wouldn't stand a chance without JPMorgan's backstopping and the commercials would surely get overrun to the upside, something that has never, ever occurred.

This brings me to derivatives in general, of which COMEX futures contracts are definitely included. It is often said that derivatives are a zero sum game, which is a fancy way of saying that profits come only at the loss of others and vice versa. In most markets, like stocks, bonds and real estate, there are longs, but few shorts. Therefore, when stocks and bonds and real estate climb in price, roughly 99% (or more) of those invested make money and when prices move lower, just about everyone loses. Stock and bond and real estate investments are just that – investments representing ownership. I would include physical silver and gold and mining stocks in that classification.

Derivatives and futures contracts are very different in that they don't represent true ownership, but a contract or bet between a long and short on which way prices will head in the future. The longs make or lose whatever the shorts lose or make – all the money is internal. If prices go up, the longs make money and the shorts lose what the longs make. If prices go down, the shorts win whatever the longs lose, dollar for dollar.

I'm reviewing the basics because the derivatives bets in COMEX silver and gold have become so large – something never intended when futures trading was introduced – that it threatens the stability and orderliness of the market. This is particularly true when one considers the very largest traders in the market – the 4 and 8 largest traders, which is how the CFTC measures concentration in every COT report.

It should be clear that nothing less than a giant meteor hitting the earth and destroying life as we know it could possibly occur in silver or gold that would hurt JPMorgan – since its massive physical position in each immunizes it to the upside. The first step is to remove JPM from the ranks of those at risk. These crooks can't possibly lose, no matter what happens – they'll just go on making $150 million every work day or a lot more. Therefore, the first order of business is to remove JPMorgan from those potentially at risk in silver and gold derivatives.

Accordingly, I'm revising my money scoreboard calculations to remove JPMorgan. What this means is that I will subtract what I believe JPMorgan's silver and gold short position to be from the 8 largest shorts and report on the status of the remaining 7 shorts. In order to help you make that transition, let me first report what this week's money scoreboard would have been through yesterday had I not proposed changing anything. Last week, I posted that the big 8 shorts were $1.7 billion in the hole on a combined gold and silver basis. With this week's rally of $8 in gold and nearly a dollar in silver, the loss as of yesterday would have been $700 million more ($200 million in gold, plus $500 million in silver) – a total open and unrealized loss of $2.4 billion.

By removing JPMorgan's 40,000+ contract gold short and 15,000 contract silver short, the remaining 7 big shorts hold roughly 200,000 COMEX short gold contracts (20 million oz) and 83,000 COMEX silver contracts (415 million oz). The 7 remaining big shorts in gold may be somewhat different than the same 7 big silver shorts, but I'm ignoring that in my calculations (as I had before). I'm using the same average shorting price for gold ($1350) and silver ($15.20) as I used when including JPM and as of yesterday's close the 7 remaining big shorts are out a combined $1.9 billion ($1.5 billion in gold and $400 million in silver).

On an average per trader basis, the 7 big shorts are out $270 million per trader on the combined $1.9 billion loss. Close to $575 million of the total loss occurred this week, meaning the $270 million average loss per trader had increased by $82 million this week. I want to be clear that, as always, I am referencing open and unrealized losses, not closed out and booked losses. Should the commercials prevail, as they always have in the past, and succeed in rigging prices lower, the open losses will disappear, also the same as always. The fact that the commercials have never collectively bought back gold or silver shorts on higher prices and at a loss is probably the clearest proof that prices have been manipulated. After all, it's not like it's written in the Constitution or Bible that the big commercial shorts are not allowed to lose (although it may be in a CFTC regulation or two).

That the commercials never having collectively bought back gold and silver short positions at a loss is not the same as them never doing so in the future. This is particularly true should JPMorgan change its evil and illegal ways. JPMorgan, alone, has enough physical metal and enough derivatives shorting power to cap and kill the rallies. Will they? I don't know, but I'm certain that the remaining 7 can't do it by themselves. This is fairly a young rally, barely two months old in gold and only, effectively, a week-old in silver. The level of open losses to the big 7 would seem to be alarming at such an early stage of the rallies.

The 7 big shorts are most likely banks, both foreign and domestic and unless I've been reading things all wrong, being heavily short gold and silver to the point of price manipulation is not something banks seem to be rushing to do. I get the sense that the 7 big banks (JPM is a separate case) may be short by accident or tradition. It just doesn't seem to be a well-thought out or intelligently designed strategy for a handful of banks to be short up the ying yang on something they don't own or can't easily get (if JPM turns off the physical spigot). This is the stuff of a monumental miscalculation – just the kind of thing banks have blundered onto throughout history.

Less than two months ago, I ventured that should gold run a hundred dollars or so, the big shorts would be out a quick $2.5 billion. I didn't include silver because it was, quite literally, dead in the water. Maybe all the king's horses and crooked men can put this manipulative humpty-dumpty back together once again, but then again, maybe not. For my part, while I would never underestimate the treachery and cunning of the commercials, silver's still too darn cheap to suggest lightening up.

Ted Butler

July 20, 2019

Silver – $16.22   (200 day ma – $15.04, 50 day ma – $14.99)

Gold – $1426   (200 day ma – $1292, 50 day ma – $1353)